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**C. W. Moorman**  
Chairman and  
Chief Executive Officer

September 15, 2014

The Honorable Daniel R. Elliott, III  
Chairman  
Surface Transportation Board  
395 E Street, S.W.  
Washington, D.C. 20423-0001

Dear Chairman Elliott:

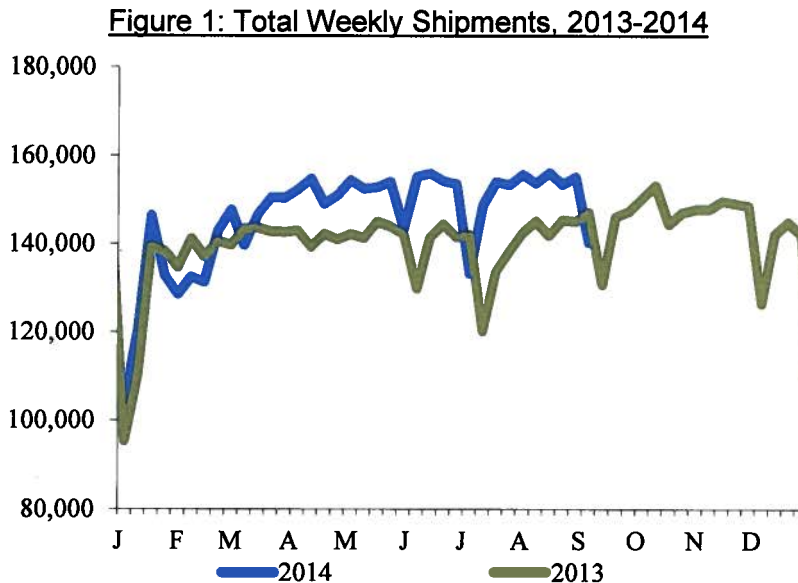
I write in response to your August 19, 2014, letter regarding end-of-year business demands. Since late March, Norfolk Southern has seen unexpected and continued strength in volumes across nearly every segment of our network, straining our resources and, in particular, our crew base coming out of a difficult winter weather season. As a result, although our operations remain fluid, our service going into fall is not at a level with which we are satisfied. We are responding to this challenge by ramping up hiring, continuing capital and locomotive investments, and adding new channels for communications with our customers. Although improvements will be gradual, customers are not likely to see significant improvements in shipment cycle times and consistency of transit times until the first quarter of 2015.

#### **I. 2014 Has Seen Significant and Unanticipated Levels of Volume Growth**

Our own internal projections for 2014 generally predicted flat growth, with increases in intermodal and crude oil shipments partially offsetting expected declines in coal. Volumes began to increase in late March, which we initially thought reflected pent-up demand from the severe winter. However, volume increases have been sustained and reflected across nearly every business segment and have run well ahead of the pace of the overall economy.

For the second quarter of 2014, traffic was up 8% over the second quarter of last year, which includes double-digit increases in intermodal along with gains in both merchandise and coal traffic. To put the volume growth in perspective, our weekly volumes averaged about 153,000 loads in the second quarter of this year, compared to 141,000 the year before. In fact, we only saw volumes exceed 150,000 loads in two weeks of all of 2013.

The figure below illustrates the sustained increase in weekly shipments across our network.



With respect to the remainder of 2014, Norfolk Southern's views on business levels are based upon our current understanding of various markets. Please keep in mind that market conditions may change in a manner that might render these views incorrect.

First, overall coal volume increased 3% in the second quarter of 2014 over the second quarter of last year. Utility coal shipments are expected to be flat throughout the remainder of the year due to mild summer weather and falling natural gas prices. Coal volumes will be tempered by weaker export metallurgical and thermal coal market conditions along with lower domestic metallurgical coal shipments.

In intermodal, shipments grew 11% in the second quarter over last year. As truck capacity tightens, we anticipate continued volume growth in our domestic network. We also expect continued volume increases in our international intermodal business, but we expect the pace of growth in this sector to moderate somewhat in the second half of the year.

Driven by metals and construction, chemicals, and agriculture, our merchandise business volumes were up 7% in the second quarter over last year. We expect continued growth across most merchandise market segments. In chemicals, crude by rail continues to be strong, and we expect our full-year 2014 volumes to be in excess of 100,000 carloads with substantial opportunity for continued growth next year. In automotive, our volumes should continue to improve as car supply becomes more fluid

and production increases. Lastly, favorable growing conditions for another robust soybean and corn crop should lead to strong year-over-year gains ahead in agricultural markets.

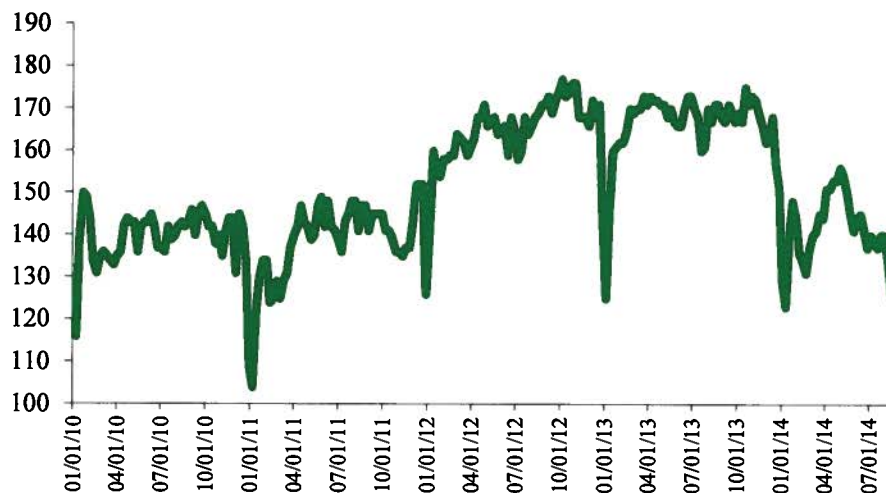
In sum, we expect continued volume growth across most of our intermodal and merchandise market segments but reduced coal volumes in the second half of 2014.

## II. Increased Volume Has Strained Resources

On the heels of a difficult operating environment in the first quarter, higher volumes have presented a new set of challenges for our operations and slowed our progress in returning the network to targeted service levels and network velocity. As the Board knows, severe winter weather negatively impacted our service in the first quarter of 2014. When we appeared in front of the Board in April, we had started to see improvement in network velocity, reduced shipment delays, and in trends in some of our key network service metrics.

However, those improvements have not been sustained due to new challenges from the unanticipated volume. Specifically, the lack of sufficient, qualified Train & Engine (T&E) employees to handle that volume has impeded continued recovery and led to a loss in network velocity, shown below.

Figure 2: Line Haul Miles Per Day (Network Velocity), January 2010 – August 2014



As the Board heard in testimony concerning Ex Parte 711, slower network velocity requires more locomotives, more railcars, and more crews to move the same amount of freight. Major track work in the Chicago area and signaling projects associated with PTC regulations are also impacting our operations in certain corridors.

### III. Restoring Network Velocity and Improving Service Remains Our Top Priority

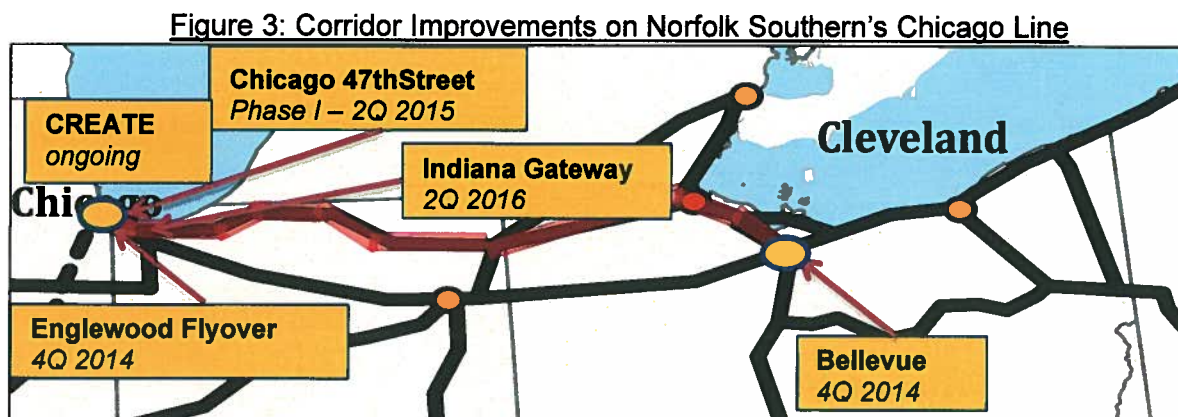
Improving network velocity is essential both to bring service levels back to customer expectations and to restore efficiency to our operations. Our plan to respond to these challenges includes capital, crew, and locomotive investments.

#### A. Capital Expenditures

Notably, throughout the recent period our network has remained fluid with no significant bottlenecks due to physical constraints. Norfolk Southern continues to make sizeable investments to maintain and expand infrastructure to meet business demands. Our capital budget for 2014 is approximately \$2.2 billion, which includes, among other things:

- Capital roadway improvements of \$910 million, including rail, crosstie, ballast, and bridge programs;
- \$300 million to acquire new locomotives and rebuild and upgrade existing units;
- Positive train control implementation costs of \$220 million; and
- Investments in facilities and terminals of \$210 million.

Facility and terminal investments are particularly important in keeping operations fluid. One of the most important ongoing investments is the \$160 million expansion of our classification yard at Bellevue, Ohio, which NS accelerated in response to consumer demand. Now scheduled to be completed in December and operational in the first quarter of 2015, it will more than double the throughput capacity of the yard. Importantly, the expansion gives us additional relief capacity during periods of congestion in the Chicago area in time for this winter should we experience additional severe weather. This project will help NS improve its capacity to block and build trains that can bypass bridge carriers at Chicago and connect directly with our western and Canadian business partners.



Bellevue's expansion is part of over \$500 million committed to investment in routes and terminals in our Chicago to Cleveland corridor. Chicago area projects, particularly the Englewood Flyover scheduled to go into service in the fourth quarter of this year, are also critical to improving Amtrak performance over Norfolk Southern lines in and out of Chicago.

In addition to infrastructure improvements, Norfolk Southern continues to invest in innovation initiatives to improve service for our customers, such as Unified Train Control System (UTCS), our next-generation dispatching system. Together with its Movement Planner component, UTCS acts as the equivalent of an air traffic control system for our railroad, using advanced algorithms to formulate a comprehensive movement plan that minimizes network congestion and delay and maximizes schedule adherence from a system perspective. In 2013, Norfolk Southern completed rollout of the base UTCS dispatching system on all eleven operating divisions. As of mid-year 2014, Movement Planner was operational on all or parts of eight of the operating divisions, and its rollout will continue through early 2015.

#### B. Crews

As mentioned earlier, our most immediate constraint to improved service is our T&E crew base. Fortunately our crew base is correctable over a shorter time frame than adding infrastructure or locomotive acquisitions. Still, the process of recruiting, completing background and medical checks, training, and qualifying new conductors takes about eight to nine months. Norfolk Southern ramped up hiring at a very quick pace, with approximately 1,400 current trainees and approved hires in process. We expect to hire another 300 crew this year and anticipate hiring further next year to meet both projected growth and fill normal attrition. Norfolk Southern is also offering incentives for T&E employees to defer retirement, for furloughed employees to relocate, and for T&E employees to forego vacation at peak times. Our qualified crew ranks should begin to improve materially starting in October.

#### C. Locomotives

Our primary challenge right now is the velocity of our locomotives and rolling stock--it is not the amount of equipment. Norfolk Southern entered the third quarter of 2014 with 220 more locomotives available for transportation than this time last year. We took delivery of 25 new locomotives in the first quarter and will take on an additional 50 locomotives beginning in October. We also are opportunistically acquiring used locomotives for rebuild in our Juniata locomotive shop in Altoona, Pennsylvania. We have kept our surge fleet (normally deployed during the winter or for incidents impacting operations) fully deployed to help meet current demand, and our new locomotives will help us rebuild that fleet for this winter.

#### **IV. Service Outlook and Customer Outreach for Remainder of 2014**

Despite these efforts, we currently project service challenges to continue at least through the first quarter of 2015. Major track work in the Chicago area and PTC projects will continue to impact operations over two of our major corridors in early fall. Our shortfall of qualified T&E employees will start to decline late this year with gradual improvement in our network velocity and service levels. We expect that, by the end of the first quarter, our network velocity and service levels will begin to approach normal levels consistent with historical performance. Therefore, as a result, passenger trains operating on NS tracks should also see improvements.

Improvements in NS's network velocity will also depend in part on the performance of our interchange partners. As the Board saw with Chicago this past winter, congestion and service impacts on other railroads also affect us because Norfolk Southern operates in a broader network. Carriers have strong incentives to minimize equipment cycle times, both to benefit their own operations and to reduce per diem charges for cars operating on their lines. Similarly, the demurrage system encourages customers to promptly return rail cars into the transportation network. Still, the nature of network operations means that there may be outside factors that could hinder our improvements.

Norfolk Southern is working hard to keep its customers informed about these concerns. Since its appearance at the Board in April, we have continued frequent direct communication between sales contacts and customers, with periodic updates provided by marketing groups on operations, hiring progress, locomotive deliveries, and expected track work and other projects.

This month Norfolk Southern will also start to implement a broader communication program on service conditions, which will be available to the public through our website. It will include monthly updates on planned track work, bridge work, and other facility work that will impact train service and shipment transit times, along with more visible links to AAR service metric data. Every quarter we will provide updates from senior executives outlining the current state of our operations as well as updating information on our crew base and critical assets (such as locomotive and rail car acquisitions, and new infrastructure projects). This system will allow customers to better plan their operations as we work to restore reliable and consistent service.

#### **V. Conclusion**

Norfolk Southern is actively and rapidly working to add tactical resources to increase the velocity of the railroad in response to the challenges discussed above. We believe that our overall network capacity is well sized to accommodate growth, and we continue to make strategic investments across our network to handle additional growth, many of

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which are coming on line soon. We are also continuing direct customer interaction and adding new channels to communicate service information to our customers. Still, we expect that our network velocity and service levels will remain below historical performance levels until at least the first quarter of 2015.

We remain concerned that many of the proposals currently before the Board would compound many of these challenges that the railroad industry has experienced in 2014. Forced access would introduce inefficiencies into the rail system and further decrease network velocity while also reducing revenues. Further, any move to apply a system-wide revenue adequacy constraint would penalize railroads for gains in competitive traffic while removing their ability and incentive to respond to current and projected transportation demands that require further productivity and infrastructure investments.

In closing, I thank you for your inquiry.

Sincerely,

A handwritten signature in blue ink that reads "Charles W. Moorman". The signature is written in a cursive style with a large, stylized "M" at the end.

cc: The Honorable Deb Miller, Vice Chairman  
The Honorable Ann D. Begeman, Commissioner